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WE'RE PROUD TO BE PART OF THEIR LIVES

Safeway Stores, Incorporated 1984 Annual Report

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HIGHLIGHTS

(in thousands, except per share amounts)	1984	1983	1982
Sales	$19,642,201	$18,585,217	$17,632,821
Net income	185,011	183,303	159,660
Per share	3.12	3.26	3.06
Dividends per share	1.525	1.425	1.325
Stockholders' equity	1,469,023	1,390,354	1,137,095
Per share	24.54	23.66	21.74
Market price range:	29¼-21¼	30-21¼	25⅛-13⅛

Note. Per share amounts adjusted to reflect the 2-for-1 stock split in 1983.

They come from many different age groups, many different ethnic and cultural backgrounds. They are professionals, farmers, factory workers, clerks and craftsmen. They are as diverse as America itself. They are our most precious asset. They are our customers. In this report, we highlight five of the many customer groups we serve. As different as they are, they have at least one thing in common. When they walk into a Safeway store, they expect quality, service and value. We are committed to meeting those expectations.

(The new uniforms worn by the store manager and food clerk in the cover photograph will soon be the standard in Safeway stores across the U.S.)

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During a year characterized by challenge and change, we recorded modest gains in preparation for solid future growth.

Review of Operating Results

Although consolidated net income for 1984 was slightly ahead of record results in 1983, our performance last year fell below expectations. Continued strong improvement in our U.S. retail operations was offset by lower earnings in Canada and the negative impact of two non-operating factors explained below.

Net income was $185.0 million last year compared with $183.3 million in 1983. Because of the greater number of shares outstanding in 1984 (three million more than in 1983), earnings per share declined to $3.12 from $3.26 a year earlier. Sales reached $19.64 billion, up 5.7 percent from 1983.

Consolidated results were adversely affected by two factors unrelated to operations. One was the LIFO method of valuing certain inventories. Whereas the application of LIFO had a negligible impact on 1983 results, it reduced 1984 pretax earnings by $29.3 million. The other factor was the continuing strength of the U.S. dollar against foreign currencies. Had exchange rates remained at 1983 levels, 1984 pretax earnings would have been $8.6 million higher and sales would have increased by 7.2 percent.

The continued progress of our U.S. retail operations is gratifying. Since 1982 we have significantly improved our overall performance in domestic markets through vigorous efforts to become more price competitive and to provide an increasing variety of merchandise and services.

In Canada, as noted in recent quarterly reports, intense competitive activity has expanded to several markets we serve in the western provinces. The costly price-cutting campaigns in which we are engaged have substantially affected our operating results in those markets. While we believe the situation will gradually stabilize, we will continue to take whatever actions are necessary to maintain our competitive position.

A key vehicle in this strategy is our Food For Less "mega-store" format of 68,000 square feet and up, featuring approximately 28,000 different items at deep-discount prices. Four of these stores opened in 1984, two each in Calgary and Edmonton. More are scheduled to open in 1985.

Other International Operations

Safeway operations in other foreign countries continue to be a bright spot. Even after currency translations, combined pretax earnings from international operations other than Canada were up by 10 percent in fiscal 1984.

Results in the United Kingdom and Australia were outstanding again. Seven new stores that opened in the U.K. during 1984, together with 14 more planned for the current fiscal year, should contribute significantly to further progress there. In Australia, we have established a new operating zone to capitalize on additional growth opportunities in the country's rapidly expanding northern areas.

Our joint venture in Mexico is also progressing very well. Despite a difficult economic environment, our Mexican partners in Casa Ley, S.A. have done a superb job of achieving sales and profits well above that nation's high inflation rate. Two new stores opened there last year, one in Tijuana, the other in Cd. Obregon.

Store Expansion Program

During 1984 we opened 195 stores (including acquisitions), closed 131 and extensively remodeled 27 others. Net additions to total store area amounted to 3.5 million square feet, a 5 percent gain.

Our store count increased significantly for the second year in a row, reversing a generally downward trend in recent years. As of year-end 1984 we operated 2,571 stores, 120 more than a decade earlier. Once again, the majority of stores opened during the year are located in communities or neighborhoods we had not served previously.

Our ongoing program to reduce store utility costs is producing dramatic results. Currently more than 1,100 stores use computer-assisted power management systems to monitor and control energy use. Through these and other measures, such as heat reclamation systems, doors on upright freezer cases and better insulation, we have saved nearly 400 million kilowatt-hours of electricity and almost 20 million therms of gas over the last 10 years. During that decade, when average utility rates in our operating areas increased by 200 percent, our total energy cost savings exceeded $20 million.

James A. Rowland *Peter A. Magowan*

Corporate Citizenship

As a major corporation we recognize and welcome our obligation to demonstrate social responsibility in the hundreds of communities we serve. During 1984, for example, we

stepped up efforts to increase representation of women and minority group members in our management ranks, and assist minority-owned enterprises in finding markets for their products.

Having helped pioneer the supermarket industry's involvement with food banks in the U.S. and Canada, we are pleased to see the remarkable growth of these organizations in recent years. In 1984 the company donated several million pounds of wholesome but commercially unsalable products to food banks throughout our operating areas for distribution to the needy.

As noted in this report a year ago, Safeway was a proud sponsor of the 1984 U.S. Olympic Team. After feeding America's Olympic athletes, trainers and coaches for almost two years, we took special pleasure in the team's stunning performances at Sarajevo and Los Angeles.

We were also pleased to be acknowledged for volunteer efforts at a special White House ceremony in December. Safeway is among 150 initial recipients of the newly created "C Flag," awarded in recognition of exceptional public service. Our company and its people are actively involved in a wide array of civic and charitable endeavors. In support of this participation, during the coming year we will be asking our employees to take a leading role in allocating a portion of our local contributions budget to organizations for which they volunteer their time.

Also underway in 1985 is the Young Astronaut Program, a private-sector initiative co-sponsored by Safeway. At President Reagan's request, the program was launched to elevate the interest and skills of American youth in mathematics, science and technology.

New Director and Officers

At its December meeting the Board of Directors elected a new member, C. Robert Kemp. Mr. Kemp is president and chief executive officer of Opportunity Funding Corporation, a non-profit development finance institution. We look forward to his active participation in the company's affairs.

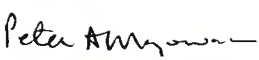
Two other directors' terms expire as of the close of this year's Annual Meeting. W. S. Mitchell, chairman of the Executive Committee and formerly chairman and chief executive officer of the company, has been associated with Safeway for 49 years. Dale L. Lynch, retired president and chief operating officer, joined us 43 years ago. On behalf of their fellow members of the board, we extend our sincere gratitude for their wise counsel and dedicated service.

A number of key senior managers retired during 1984, following long and distinguished careers: group vice president Fred E. MacRae (47 years) and senior vice president Neils V. Lawson (39 years), both executive officers; retail division managers Vern E. Fahey (47 years), Allen Francis (37 years) and Donald L. Olson (37 years); retail zone manager Burton R. Bolesworth (34 years); and Facilities Engineering Division manager Robert M. Lyness (33 years). Shortly after year's end, retail division manager Forrest Woolery (43 years) also retired.

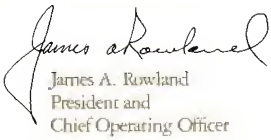
In related developments, Donald J. Smith was named an executive officer and a group vice president, and the following individuals were appointed retail division managers: Richard P. Hillery, Wilber L. Schinner, John Jope, Henry R. Rempel and B. Raj Dogra. Other newly elected officers are William M. Albers, senior vice president – distribution, and vice presidents Maurice Barron, director of taxation, and Robert G. Backovich, Ronald Giglio, Timothy J. Hopkins, Wayne Leader, Arthur L. Patch and Rayburn D. Pearce, all service division managers within the corporate marketing group.

Outlook

Looking ahead, economic indicators point to continued moderation of the overall inflation rate and energy costs, together with further gains in real personal income. We are optimistic that 1985 will be a considerably better year than the one just past.



Peter A. Magowan
Chairman of the Board and
Chief Executive Officer



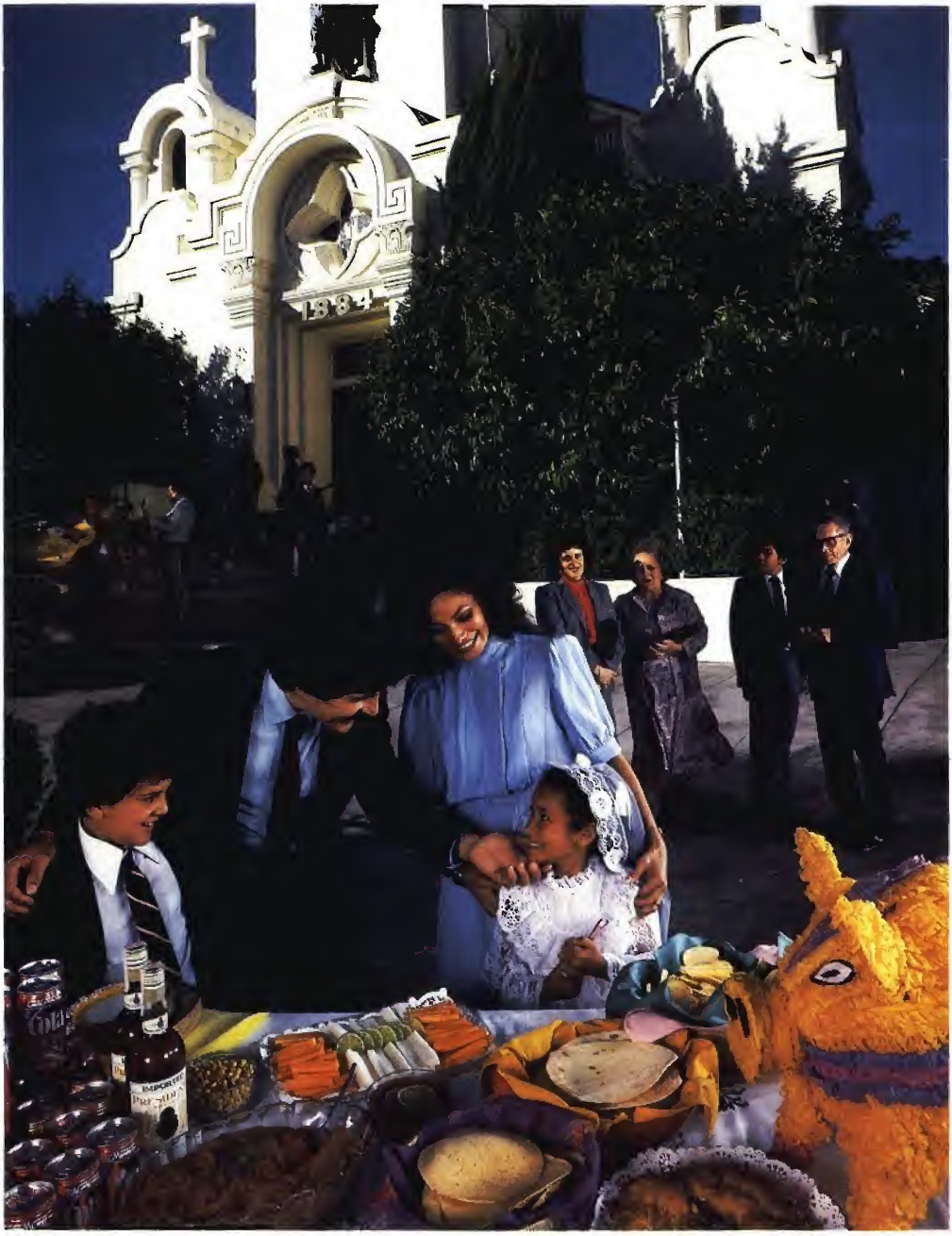
James A. Rowland
President and
Chief Operating Officer

Opportunity and challenge are the twin companions of change, and change is a way of life in the retail food industry. The key to seizing the opportunities and meeting the challenges is knowledge.

At Safeway, we are continually updating our marketing knowledge by monitoring customer needs and preferences, and analyzing demographic trends. Last year, for example, we surveyed thousands of consumers in the U.S. alone. Through these conversations with our customers, and a variety of other sources, we try to identify emerging markets so we can serve them sooner.

In the following pages we highlight five important customer profiles. Some have only recently come to prominence—products of a changing society. Others have been with us from our beginning, but are changing their expectations.

Satisfying these diverse customer groups, and many not depicted here, is the challenge of today. Listening to them—and changing with them—is the opportunity for tomorrow.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WE'RE PROUD TO BE PART OF THEIR FAMILY

By the year 2000 there will be more than 42 million Hispanic residents in the United States. Numbering 23 million today, Hispanics represent an annual U.S. retail sales market of more than $60 billion.

With this increase of our Latin population comes a new set of challenges, a new way of looking at our customers, and a new way of doing business.

Mexican-Americans are especially important to Safeway, because our greatest growth is occurring in the regions where that culture is flourishing. This demographic phenomenon is having a profound impact on our operations in Texas, California, Colorado, Arizona and New Mexico, and presents even greater opportunities for the future.

We looked beyond our corporate offices for insights into this expanding market.

Through our joint venture with Casa Ley, S.A., an 18-store chain in northwest Mexico, we are learning firsthand what families of Mexican origin expect from their supermarkets. Augmenting that experience with extensive consumer surveys in the U.S., we are learning what we must do to serve our Hispanic customers more effectively.

Our findings are revealing—and exciting.

Home and family are the cornerstones of Hispanic culture, and those values express themselves in the kitchen. Birthdays, holidays, weddings, births and first communions all present opportunities for family gatherings in the Mexican-American home. And no family gathering is complete without food—a lot of food.

The typical Mexican-American customer is a mother who enjoys shopping and spends more time in the supermarket than most other consumers. She likes to cook, and often begins preparing the evening meal at mid-day. When choosing a supermarket, she looks first for friendly employees, then convenient location.

More important, at least for the future, is the fact that this shopper is loyal—not only to the brands she buys, but to her supermarket.

Safeway is winning this new customer's loyalty by paying attention to how Mexican-Americans shop, by asking them what they want from a supermarket—then providing it.

As the Mexican-American culture flourishes, we continue to learn from it and—as we apply that knowledge—grow with it.

Raj Dogra helped pioneer Safeway's entry into Mexico in 1981. He spent more than two years in Culiacan with our Mexican partner, Casa Ley S.A., learning the language, culture, attitudes and shopping habits of the people. He now applies that knowledge daily in the U.S. as manager of our El Paso Division.

More than 45 percent of our customers at Store No. 110 in Los Angeles are Mexican-American. Most of our employees there have good bilingual skills, and are able to offer these customers the personal attention they demand.

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They are young. They are affluent. They are mobile. And they are locating by the thousands in communities Safeway serves. They are the baby boomers, and they have come of age.

More than 56 million Americans are between 25 and 39 years old. Nearly one-fourth of them are college graduates, and many hold professional, technical or managerial jobs.

From this group has come the most significant new customer to emerge from the changing social tapestry of the 20th century — the working mother. Although she now frequently shares shopping duties with her husband, she still spends more time in the supermarket than any other member of the family.

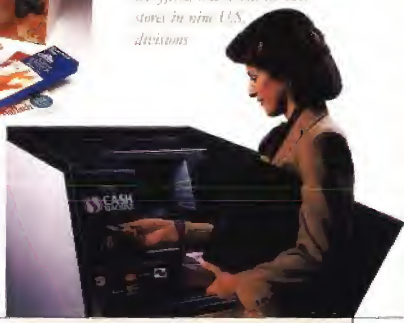
As customers, the baby boomers are enticing but elusive. Their tastes are sophisticated, yet their buying decisions are driven by value. With two salaries in the family they have more disposable income than most, though the demands of dual jobs leave little time to shop.

To the boomers, change is the normal way of life. They are comfortable with technology — if it saves time — and are slow to form lasting loyalties to brands and stores. They tend toward the skeptical, and must be convinced repeatedly that they are receiving the best value for their investment of time and money. They want convenience, are willing to pay for it, but have little patience for products and services that do not live up to expectations.

Safeway's one-stop shopping concept is custom-tailored for this group. The many specialty departments and services of the superstore help save the baby boomers that most precious of all commodities — time. In-store bakeries, delis, automatic teller machines, expanded non-food sections — and solid values throughout the store — make Safeway an attractive shopping choice for this customer.

WE'RE PROUD TO BE PART OF THEIR BUSY LIVES

Expanded displays of non-food items provide convenience for the working woman and higher gross profit margins for Safeway.

At ease with technology, busy baby boomers appreciate time-saving services such as automatic teller machines. At year's end, we offered this service in 418 stores in nine U.S. divisions.

Lucerne
BAKE SHOP

America is growing older, and it is doing so with gusto. Mature adults have become an increasingly significant part of the consuming public, and as the over-50 age group grows in number, old stereotypes are falling by the wayside. By and large, older Americans are a healthy, vital group with more time and money to spend than most.

Currently, more than 47 million people in the U.S. have reached the mid-century mark. By 1990 that figure is expected to reach 59 million. About 30 percent of their collective income is available for discretionary spending, as compared with 15 percent for younger shoppers.

Once taken for granted by many retailers—or simply ignored—older Americans are fast becoming one of the most sought-after markets of the 1980s. More than any other group, they appreciate the attention Safeway pays to details. We have made our unit price tags more readable, for example, and improved parking lot lighting and security. Where practical, we try to provide a warm, informal atmosphere in our stores, with convenient sit-down areas for older shoppers.

WE'RE PROUD TO BE PART OF THEIR LONG, PRODUCTIVE LIVES

Tempered by the hard times of the 1930s and the shortages of the war years, most consumers in this age group have a deep-seated aversion to waste. Since many of them live alone, they look for food packaged in smaller portions. They also want convenience, and are big purchasers of frozen foods.

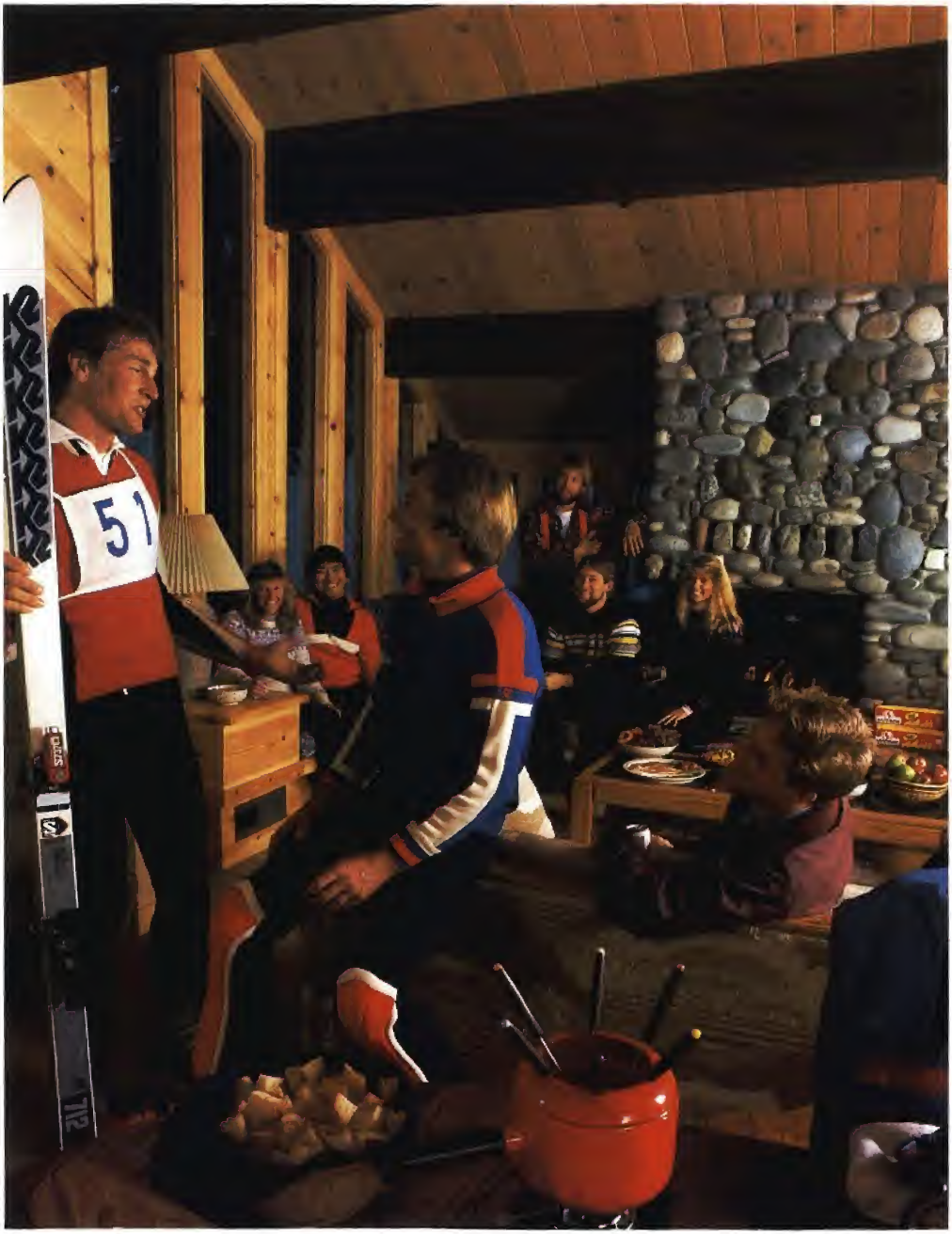
Many health-conscious seniors are moving away from traditional meals of red meat and starches, preferring more fruits and vegetables. They are drinking less alcohol than they used to, but are spending more on lighter beverages without caffeine.

While seniors have never been healthier than they are today, they have a greater need for prescription medicines than younger shoppers. At year's end we operated 363 pharmacies, up from just 27 five years ago. We attract seniors to our pharmacies with good value at competitive prices, and keep them coming back with friendly, personal service from our pharmacists.

We are keeping a weather eye on this segment of our customer base, charting trends and preferences. As we implement new services and introduce new products, we hope to earn an even bigger share of older Americans' business.

Seniors appreciate the personal attention of a pharmacist to answer questions about prescription drugs as well as over-the-counter health and beauty aids.

By tailoring merchandise selections to seniors' changing tastes, we hope to earn an even larger share of this growing market.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Job pressures, higher salaries, better health care, changing social values, increasing divorce rates, greater mobility—the demographers cite many reasons for the trend toward increasing numbers of single-person households. Whatever the cause, those who live alone are a growing segment of our customer base.

Curiously, single male households are increasing even faster than those headed by women. Never-married working men present a special opportunity since, typically, they enjoy larger incomes than most other customers. Upscale tastes are part of the lifestyle, with singles willing to swap economy for taste and convenience.

Single shoppers spend nearly twice as much on food as the average family spends for each member of its household, and they buy more high-profit items. While those trends are a plus for the food retailer, the reasons behind them present some special challenges. The single male sees comparison shopping as a poor investment of time, so it is difficult to attract him with traditional ads and specials. He doesn't seem to care where he shops, as long as he can get in and out quickly. He frequently chooses restaurant fare over food prepared at home, but our deli's, bakeries and other specialty departments offer him an attractive alternative.

Unlike his married counterpart, the young single man tends to develop brand loyalty rather quickly, but it is a loyalty of convenience. Rather than seeking out the "best" product for a given need, he finds one that works then stays with it, thinking it a waste of time to further refine his choice.

The key to this shopper is image. Many single men feel out of their element in the supermarket and perceive—rightly or wrongly—that women shoppers view them as intruders. By slanting our magazine ads away from an exclusive female market, and placing them in such publications as *Sports Illustrated* and *Newsweek*, we hope to dispel the single male's misgivings about grocery shopping and attract him to our stores.

WE'RE PROUD TO BE PART OF HIS ACTIVE LIFE-STYLE

Single male households have been increasing steadily—not only in relation to the general population, but when compared to single female households as well.

1970 1981

- *Single men living alone*
- *Single women living alone*
- *All other categories*

Source: U. S. Bureau of the Census, USA research

The convenience, quality and service of a well-staffed deli are among the Safeway attractions that lure single male shoppers away from "mini-markets."

WE'RE PROUD TO BE PART OF THEIR HOME TOWN

The unsettled years of the 60s and 70s, and the fast-paced 80s, have seen many changes in the fabric of American society. Values, attitudes and lifestyles have all been challenged, examined and modified. Technology has changed the way we work, the way we think and the way we live. Many businesses have not kept pace. Some have fallen by the wayside.

For the survivors, the trends and nuances of change present sometimes fleeting, sometimes lasting opportunities. We see many new customer groups emerging, and are continually seeking new ways to accommodate and serve them. But we have not forgotten our roots. While the cities have offered us many lucrative "markets of opportunity," in many ways we remain a small-town grocer.

At year's end Safeway operated 2,012 retail outlets in the United States. Hundreds of these are in communities where we have only one store. In many cases we are serving the children of our original customers; and in some, the grandchildren and great-grandchildren.

That is not to say we are inflexible to change in the smaller communities we serve. Advances in technology, communication, transportation and education are blurring the traditional lines between urban and rural life in America. The family farm is becoming the family corporation, while technical skills are becoming increasingly important to the business of agriculture. Children used to remain on the farm from one generation to the next. Now they go off to college, to the military, to jobs in the city. When they return, they bring with them new ideas, new tastes, new shopping habits, new brand loyalties, new expectations of their supermarkets.

Our decentralized retail operations, diverse store formats and flexible stocking plans allow us to respond quickly to these challenges. The rural landscape in America may be changing, but the familiar Safeway landmark remains.

Although we are discovering exciting new markets in the cities and suburbs, the small town, where we operate a single store, remains a major part of our business. Our visibility is much greater in these communities, and our role as corporate citizen more prominent. In many cases we are the largest year-round employer, we may also be the largest single purchaser of local agricultural products.

In California's Imperial Valley, for example, we operate only three small-town stores, yet purchase millions of dollars' worth of produce from nearby growers each year. Through our extensive distribution network, those fruits and vegetables reach the tables of Safeway customers from Fairbanks, Alaska to Richmond, Virginia.

As of fiscal year-end, Safeway and its subsidiaries operated 2,571 stores in the United States, Canada, the United Kingdom, West Germany and Australia. Regional alignment of retail operations is shown below. Group vice presidents report to James A. Rowland, president, as does the chairman of Canada Safeway Limited.

United States

John Bell, Group Vice President
Dallas Division, Carey A. Ford, 157 stores
El Paso Division, B. Raj Dogra, 58 stores
Houston Division, Dean M. Gantt, 133 stores
Phoenix Division, Robert R. Taylor, 92 stores
Sacramento Division, Eugene V. Podoll, 78 stores
San Francisco Division, William D. Lowe, 212 stores
Southern California Division, Donald L. Gates, 269 stores
Brenteway, Incorporated, Albert Lujan, 20 stores

William H. Maloney, Group Vice President
Denver Division, Gene J. Lawson, 146 stores
Portland Division, John A. Cartales, 96 stores
Salt Lake City Division, Donald R. Cannon, 61 stores
Seattle Division, Gerald V. Curtright, 137 stores
Spokane Division, John R. Maxwell, 63 stores

Donald J. Smith, Group Vice President
Kansas City Division, Richard F. Wilson, 74 stores
Little Rock Division, Wilber L. Schinner, 65 stores
Oklahoma Division, Donald J. Phillips, 118 stores
Richmond Division, Ralph C. Ward, 82 stores
Washington, D.C. Division, Richard P. Hillery, 151 stores

Canada

Robert H. Kinnie, Chairman, President and Chief Executive Officer
Canada Safeway Limited
Calgary Division, Bruce S. Nicoll, 46 stores
Edmonton Division, Henry R. Rempel, 53 stores
Regina Division, Richard H. Parkyn, 25 stores
Toronto Division, Norman D. Fingler, 24 stores
Vancouver Division, Robert F. Hendy, 93 stores
Winnipeg Division, John Jope, 50 stores

International

John S. Kimball, Group Vice President
Australia Division, J.W.R. Pratt, 123 stores
Germany Division, Manfred J. Filzek, 35 stores
United Kingdom Division, T. E. Spratt, 110 stores
Mexico, Casa Ley, S.A. (joint venture), 18 stores
Saudi Arabia (management contract), 6 stores

WE'RE PROUD TO BE PART OF THE GLOBAL COMMUNITY

FIVE-YEAR SUMMARY

	1984	1983	1982	1981	1980*
Operations					
Sales	$19,642,201	$18,585,217	$17,652,821	$16,580,318	$15,102,673
Percent of annual increase	5.7%	5.4%	6.4%	9.8%	10.1%
Cost of sales	15,004,547	14,219,843	13,628,052	12,945,923	11,816,733
Gross profit	4,637,654	4,365,374	4,004,769	3,634,395	3,285,940
Percent of sales	23.6%	23.3%	22.7%	21.9%	21.8%
Operating and administrative expenses	4,214,443	3,920,736	3,653,561	3,363,478	2,999,130
Percent of sales	21.5%	21.1%	20.7%	20.3%	19.9%
Operating profit	423,211	444,638	351,208	270,917	286,810
Interest expense	151,265	134,270	129,484	120,393	99,614
Other income, net	(26,874)	(20,565)	(26,536)	(15,822)	(16,486)
Income taxes	113,811	117,630	88,600	58,062	74,544
Net income	$ 185,011	$ 183,303	$ 159,660	$ 108,284	$ 129,138
Percent of sales	0.94%	0.99%	0.91%	0.65%	0.86%
Percent of average stockholders' equity	12.94%	14.50%	14.43%	10.16%	12.60%
Per share	$ 3.12	$ 3.26	$ 3.06	$ 2.07	$ 2.47
Cash dividends per share	$ 1.525	$ 1.425	$ 1.325	$ 1.300	$ 1.300
Average shares of common stock outstanding	59,226,997	56,163,014	52,261,216	52,231,834	52,231,834
Financial Statistics					
Working capital	$ 302,828	$ 230,857	$ 218,124	$ 112,919	$ 114,185
Current assets per dollar of current liabilities	1.19	1.15	1.16	1.08	1.10
Additions to property	701,678	541,238	511,917	518,330	493,005
Depreciation and amortization	295,290	264,553	242,371	226,001	203,469
Total assets	4,537,229	4,174,363	3,890,633	3,652,315	3,333,541
Long-term debt	1,392,710	1,187,669	1,256,186	1,137,616	1,051,229
Equity of common stockholders	1,469,023	1,390,354	1,137,095	1,075,098	1,055,687
Per share	24.54	23.66	21.74	20.59	20.21
Cash dividends on common stock	90,371	80,961	69,228	67,900	67,900
Other Statistics					
Employees at year-end	168,590	162,088	156,478	157,411	150,012
Stores opened during year	195	145	153	159	160
Stores closed during year	131	92	176	98	169
Total stores at year-end	2,571	2,507	2,454	2,477	2,416
Total store area at year-end (thousands sq. ft.)	73,284	69,818	66,816	65,483	62,069
Average annual sales per store	$ 7,531	$ 7,395	$ 7,184	$ 6,682	$ 6,072
Price range, New York Stock Exchange High-Low	$ 29¾-21¼	$ 30-21¼	$ 25⅛-13⅜	$ 18⅞-12¼	$ 18⅛-13

Note: Dollars in thousands, except per share amounts.
All share and per share amounts adjusted to reflect the 2-for-1 stock split in 1983.

*53 weeks

Results of Operations

Consolidated sales increased 5.7 percent in 1984 to $19.66 billion, from $18.59 billion in 1983 and $17.68 billion in 1982. U.S. sales over the three years showed a favorable upward trend. Foreign sales showed continued growth in local currencies. However, their contribution to consolidated sales figures was dampened by translation to the further strengthened U.S. dollar.

Gross profit as a percent of sales maintained a slight increasing trend in 1984, to 23.6 percent from 23.5 percent in 1983 and 22.7 percent in 1982. A continued emphasis on larger stores, slight changes in product mix, as well as concerted efforts to improve product buying practices over the three years have contributed to the increase. Application of the LIFO method of valuing certain inventories resulted in a $29.3 million charge to cost of sales in 1984, a credit of $0.4 million in 1983 and a charge of $13.1 million in 1982.

As a percentage of sales, operating and administrative expenses increased to 21.5 percent from 21.1 percent and 20.7 percent in 1983 and 1982, respectively. Increases in store operating costs are attributed primarily to continued rises in employee and occupancy costs.

Interest expense increased 12.7 percent in 1984 to $151.3 million from $134.3 million in 1983 and $129.5 million in 1982. The increase results from a growing trend toward mortgage financing.

The provision for income taxes decreased to 38.1 percent of pretax income from 39.1 percent in 1983 and increased from 35.7 percent in 1982. The decrease in 1984 is mainly due to higher investment tax credits. The increase in 1983 was due to changes in the tax laws governing investment and other tax credits.

Net income increased 0.9 percent in 1984 to $185.0 million from $183.3 million in 1983 and $159.7 million in 1982. Net income in the U.S. maintained an improving trend that began in 1982. Net income in Canada, however, suffered in 1984 from intense competitive activity extending to several operating areas.

See Note L for further information on the effects of inflation and changing prices on operating results.

Liquidity

Consolidated working capital increased to $303 million in 1984 from $231 million and $218 million in 1983 and 1982, respectively. The current ratio increased to 1.19 from 1.15 and 1.16 in those years. Had the company valued its inventories using the FIFO method, its current ratio would have been 1.40, 1.35 and 1.36, and working capital would have been $621 million, $520 million and $508 million at year-ends 1984, 1983 and 1982, respectively.

Average commercial paper and bank borrowings were $100 million in 1984, down from $164 million in 1983 and $289 million in 1982. Proceeds from the stock offering in 1983 were used to reduce short-term borrowings. The average interest rates paid on consolidated short-term borrowings were 10.0 percent, 9.9 percent and 12.9 percent in 1984, 1983 and 1982, respectively.

Capital Resources

Capital expenditures increased to $702 million in 1984 from $541 million and $512 million in 1983 and 1982, respectively. Capital expenditures in 1984 included the acquisition of 20 Thriftmart stores and 43 Weingarten stores in addition to expenditures for new stores and major remodelings. The company opened 195 stores in 1984 and closed 131. During 1984, total retail store area increased by 3.5 million square feet to 73.3 million from 69.8 million and 66.8 million at year-ends 1983 and 1982. The mix and average square footage of stores at year-end 1984 were as follows:

	Number	Avg. Size Sq. Ft.
Conventional supermarkets	1,726	24,683
Superstores (over 35,000 sq. ft.)	627	41,321
Food Barns	100	24,660
Liquor Barns	98	19,480
Other specialty stores	20	19,900
Total stores and overall average	2,571	28,504

Capital expenditures in 1985 are projected to be $653 million and 117 store openings are planned. The company obtains most of its capital financing from operations, mortgages and sale/leasebacks. In 1984, 1983 and 1982, cash from operations totaled $408 million, $438 million and $318 million, respectively. Apart from operations, mortgage financing is planned as the major source of capital financing in 1985.

CONSOLIDATED STATEMENTS OF INCOME

For the 52 weeks ended December 29, 1984, December 31, 1983 and January 1, 1983
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	1984	1983	1982
Sales	$19,642,201	$18,585,217	$17,632,821
Cost of sales	15,004,547	14,249,843	13,628,052
Gross profit	4,637,654	4,335,374	4,004,769
Operating and administrative expenses	4,214,443	3,920,736	3,653,561
Operating profit	423,211	414,638	351,208
Interest expense	151,263	134,270	129,484
Other income, net	(26,874)	(20,565)	(26,536)
Income before provision for income taxes	298,822	300,933	248,260
Provision for income taxes	113,811	117,630	88,600
Net income	$ 185,011	$ 183,303	$ 159,660
Net income per share	$ 3.12	$ 3.26	$ 3.06

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the 52 weeks ended December 29, 1984, December 31, 1983 and January 1, 1983
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands)

	1984	1983	1982
Cash provided from operations:			
Net income	$185,011	$183,503	$159,660
Charges (credits) to income not requiring cash:			
Depreciation and amortization	295,290	261,555	242,371
Deferred income taxes	34,128	20,194	7,481
LIFO charge (credit)	29,275	(434)	13,111
Accrued claims and other liabilities	(12,996)	(11,035)	(13,761)
(Increase) decrease in current assets:			
Receivables	(13,524)	(18,537)	(925)
Inventories at FIFO cost	(159,265)	(94,820)	(130,665)
Prepaid expenses and other current assets	12,689	7,349	(3,512)
Increase (decrease) in current liabilities:			
Notes payable	(5,243)	(37,872)	(53,180)
Payables and accruals	65,028	93,761	107,881
Income taxes payable	(22,650)	31,824	(10,655)
Total cash provided from operations	407,743	438,276	317,806
Investment and other activities:			
Additions to property	(701,678)	(541,238)	(511,917)
Retirements or sales of property	113,091	90,296	153,492
Exchange rate effects on property	57,211	27,308	44,802
Cumulative translation adjustments	(41,907)	(18,045)	(29,628)
Other	2,651	(12,263)	(7,671)
Net investment and other activities	(570,632)	(453,942)	(350,922)
Financing activities:			
Additions to long-term debt	323,625	205,935	228,293
Payments on long-term debt	(104,008)	(266,876)	(94,618)
Exchange rate effects on long-term debt	(14,576)	(7,576)	(15,105)
Proceeds from issuance of common stock	25,936	168,962	1,193
Cash dividends on common stock	(90,371)	(80,961)	(69,228)
Increase in current maturities of long-term debt	23,137	11,155	2,619
Other	(1,986)	(3,207)	(305)
Net financing activities	161,757	27,432	52,849
Increase (decrease) in cash and short-term investments	(1,132)	11,766	19,733
Cash and short-term investments:			
Beginning of year	75,574	63,808	44,075
End of year	$ 74,442	$ 75,574	$ 63,808

See accompanying notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As of December 29, 1984, December 31, 1983 and January 1, 1983
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	1984	1983	1982
Assets			
Current assets:			
Cash and short-term investments	$ 74,442	$ 75,574	$ 63,808
Receivables	105,166	91,632	73,105
Merchandise inventories:			
LIFO cost	1,881,525	1,722,260	1,627,190
Less LIFO reductions	318,281	289,006	280,190
	1,563,244	1,433,254	1,347,000
Prepaid expenses and other current assets	118,537	128,676	112,632
Total current assets	1,861,389	1,729,146	1,637,545
Property:			
Land	236,876	210,427	174,623
Buildings	345,001	305,006	279,736
Leasehold improvements	557,504	459,711	403,415
Fixtures and equipment	2,023,914	1,788,136	1,610,584
Transport equipment	186,485	173,576	165,761
Property under capital leases	1,144,409	1,155,493	1,140,436
	4,494,189	4,093,349	3,774,555
Less accumulated depreciation and amortization	1,894,333	1,731,138	1,572,602
Total property, net	2,599,856	2,362,211	2,201,953
Excess of cost over net assets acquired	16,588	16,557	11,301
Other assets	59,396	66,449	56,856
Total assets	$4,537,229	$4,174,363	$3,890,653

See accompanying notes to consolidated financial statements

	1984	1983	1982
Liabilities and Stockholders' Equity			
Current liabilities:			
Notes payable	$ 44,913	$ 50,156	$ 88,028
Current obligations under capital leases	45,427	45,841	45,564
Current maturities of notes and debentures	48,274	24,723	13,845
Accounts payable	1,038,268	1,017,094	948,632
Accrued salaries and wages	167,739	163,021	149,492
Other accrued expenses	193,509	154,373	142,603
Income taxes payable	20,431	43,081	11,257
Total current liabilities	1,558,561	1,498,289	1,399,421
Long-term debt:			
Obligations under capital leases	746,178	765,307	767,309
Notes and debentures	646,532	422,362	488,877
Total long-term debt	1,392,710	1,187,669	1,256,186
Accrued claims and other liabilities	116,935	98,051	97,931
Total liabilities	3,068,206	2,784,009	2,753,538
Stockholders' equity:			
Common stock—$1.66⅔ par value			
Authorized 150,000,000, 75,000,000 and 75,000,000 shares			
Outstanding 59,853,676, 58,759,976 and 26,149,743 shares	99,756	97,933	43,583
Additional paid-in capital	246,964	222,851	64,573
Cumulative translation adjustments	(155,994)	(114,087)	(96,042)
Retained earnings	1,278,297	1,183,657	1,124,981
Total stockholders' equity	1,469,023	1,390,354	1,137,095
Total liabilities and stockholders' equity	$4,537,229	$4,174,363	$3,890,633

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the 52 weeks ended December 29, 1984, December 31, 1983 and January 1, 1983
Safeway Stores, Incorporated and Subsidiaries (dollars in thousands, except per share amounts)

	Common Stock			Additional	Cumulative	
	Shares Outstanding	Shares in Treasury	Amount Outstanding	Paid-in Capital	Translation Adjustments	Retained Earnings
Balance, January 2, 1982	26,115,917	13,601	$43,527	$ 63,436	$ (66,414)	$1,034,549
Net income						159,660
Cash dividends ($1.325 per share)						(69,228)
Translation adjustments					(29,628)	
Stock issued under stock option plans	33,826		56	1,137		
Balance, January 1, 1983	26,149,743	13,601	43,583	64,573	(96,042)	1,124,981
Net income						183,303
Cash dividends ($1.425 per share)						(80,961)
Translation adjustments					(18,045)	
Stock issued under stock option plans (pre-split)	50,264		84	1,841		
Stock issued in 2-for-1 split	26,200,007	13,601	43,666			(43,666)
Stock issued under:						
Public offering	5,500,000		9,167	136,729		
Dividend reinvestment plan	564,019		940	13,403		
Stock option plans	150,310		250	2,470		
Tax Reduction Act Stock Ownership Plan (TRASOP)	145,633		243	3,835		
Balance, December 31, 1983	58,759,976	27,202	97,933	222,851	(114,087)	1,183,657
Net income						185,011
Cash dividends ($1.525 per share)						(90,371)
Translation adjustments					(41,907)	
Stock issued under:						
Dividend reinvestment plan	949,918		1,583	21,734		
Stock option plans	143,782		240	2,379		
Balance, December 29, 1984	59,853,676	27,202	$99,756	$246,964	$(155,994)	$1,278,297

See accompanying notes to consolidated financial statements.

Note A. Summary of Significant Accounting Policies

Fiscal Year:

The fiscal year for Safeway Stores, Incorporated (the company) and its Canadian subsidiary ends on the Saturday nearest December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30, to allow sufficient time to gather information from overseas for U.S. reporting purposes.

Basis of Consolidation:

Consolidated financial statements include the accounts of all subsidiaries except a minor foreign subsidiary which is included in investments at the amount of equity in net book value. All intercompany transactions have been eliminated in consolidation. Investments in affiliates which are not majority owned are included in the financial statements at the company's equity therein.

Translation of Foreign Currencies:

Assets and liabilities of the company's foreign subsidiaries are translated into U.S. dollars at fiscal year-end rates of exchange, and income and expenses are translated at average rates during the year.

Translation adjustments are accumulated in a separate component of stockholders' equity-Cumulative translation adjustments.

Gains or losses from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in income. Aggregate net losses on foreign currency transactions included in net income were $2,370,000 in 1984, $2,502,000 in 1983, and $2,399,000 in 1982.

Provision For Income Taxes:

The company provides for deferred income tax charges and credits resulting from timing differences in the recognition of income and expenses for financial reporting and income tax purposes. Investment tax credits, excluding credits acquired from other companies through tax leases, reduce the provision for income taxes in the year in which the credits arise.

The cost of tax benefits acquired from other companies through tax leases is capitalized as an investment and reduced as the investment is recovered by realized tax savings. Deferred taxes are provided for differences between taxable income and financial reporting income that arise from such transactions.

Merchandise Inventories:

Approximately 65 percent of consolidated merchandise inventories are valued on a last-in, first-out (LIFO) basis at December 29, 1984. Inventories not valued on a LIFO basis are valued at the lower of cost on a first-in, first-out (FIFO) basis or replacement market. Inventories on a FIFO basis include meat and produce in the U.S. and all Canadian and overseas subsidiaries' inventories.

Application of the LIFO method resulted in a $29,275,000 charge to cost of sales in 1984, a $444,000 credit in 1983 and a $13,111,000 charge in 1982. In all three years, fourth-quarter adjustments reduced the LIFO charges accumulated through the first 36 weeks of the year to reflect the actual impact of the LIFO method for the full year as determined at year-end. The adjustments increased fourth quarter pretax earnings by $2,441,000 in 1984, $23,838,000 in 1983, and $12,603,000 in 1982.

Excess of Cost Over Net Assets Acquired:

The excess cost of investment in subsidiaries over net assets at the date of acquisition is amortized and charged against income on a straight-line basis over 20 years.

Property and Depreciation:

Property is stated at historical cost. Interest cost incurred in connection with construction in progress is capitalized. Depreciation is computed for financial reporting purposes under the straight-line method using the following lives:

Stores and other buildings	20 - 40 years
Fixtures and equipment	5 - 20 years
Transport equipment	6 - 8 years

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Buildings and major improvements are amortized over the shorter of the remaining period of the lease or the estimated useful life of the asset.

Property under capital leases is amortized over the terms of the leases. Accumulated amortization of property under capital leases was $515,234,000, $502,917,000, and $477,131,000 at year-ends 1984, 1983, and 1982, respectively.

Depreciation and amortization expense for property of $293,732,000 in 1984, $263,374,000 in 1983, and $241,264,000 in 1982 included amortization of property under capital leases of $54,939,000, $55,188,000, and $54,447,000, respectively.

Stock Options:

Proceeds from the sale of common stock issued under options are added to common stock at par value and the excess is added to additional paid-in capital. In addition, any tax benefit to the company realized as a result of stock option exercises is added to additional paid-in capital.

Pre-Opening Costs:

Pre-opening costs are expensed as incurred.

Self-Insurance:

The company is self-insured for workers' compensation, automobile, and general liability costs. The estimated self-insurance liability is based upon a review by the company and an independent actuary of claims filed and claims incurred but not yet filed.

The company is also self-insured to provide post-retirement health care and death benefits to retirees. The cost of these benefits is expensed as claims are paid.

Note A. Summary of Significant Accounting Policies (Continued)

Net Income Per Share:

Net income per share is determined by dividing consolidated net income by the average number of common shares outstanding during the year.

Stock Split:

Effective March 31, 1983, the company declared a 2-for-1 split of common shares accomplished by a 100 percent stock distribution. All per share amounts in the accompanying consolidated financial statements have been adjusted to reflect the stock split.

Note B. Interest Expense

Interest expense consisted of the following (in thousands):

	1984	1983	1982
Obligations under capital leases	$ 75,060	$ 74,031	$ 71,238
Notes and debentures	63,585	48,201	27,176
Commercial paper and bank borrowings	16,544	16,329	37,948
Other	3,011	3,017	3,265
	158,200	141,578	139,627
Less capitalized interest	6,937	7,308	10,143
Total	$151,263	$134,270	$129,484

Note C. Taxes on Income

The components of the provision for income taxes included in the consolidated statements of income were as follows (in thousands):

	1984	1983	1982
Current			
Federal	$ 21,057	$ 23,589	$13,609
State	9,161	12,217	9,536
Foreign	49,465	61,630	57,974
	79,683	97,436	81,119
Deferred			
Federal	30,321	18,644	8,655
State	2,092	562	(1,210)
Foreign	1,715	988	36
	34,128	20,194	7,481
	$113,811	$117,630	$88,600

A non-current deferred tax credit of $47,484,000, was included in Accrued claims and other liabilities in 1984. In 1983 and 1982, respectively, deferred tax charges of $4,798,000 and $7,220,000 were included in Other assets. Current deferred tax charges of $25,021,000, $22,471,000, and $29,088,000 were included in Prepaid expenses and other current assets in those years.

The following represent the tax effects of the principal items for which treatment for financial statement and income tax purposes differ, giving rise to timing differences (in thousands):

	1984	1983	1982
Accelerated depreciation	$27,730	$27,151	$ 6,139
Tax benefits acquired through tax leases	12,956	12,282	21,610
Accrued claims	5,179	(2,270)	(8,454)
Capitalized leases	(3,779)	(4,213)	(2,129)
Compensation plans	(2,302)	(2,328)	(3,973)
Repairs expense	425	(5,168)	(2,645)
Other, net	(6,081)	(5,260)	(3,067)
	$34,128	$20,194	$ 7,481

Distributions are made to the parent company from the current earnings of certain foreign subsidiaries and provision has been made for any income taxes payable on such distributions. No provision has been made for income taxes which might be payable if earnings not yet distributed through year-end 1984 were distributed to the parent company, since it is the intention of management to make no such distributions. The undistributed earnings on which the company has not provided for income taxes were $732,500,000, $749,445,000, and $662,770,000 at year-ends 1984, 1983, and 1982, respectively.

In 1982, the company purchased $13,000,000 in investment and energy tax credits and $16,347,000 in other tax deductions through transactions structured as leases for tax purposes.

U.S. and Canadian corporation income tax returns for all years prior to 1980 and 1977, respectively, have been reviewed by taxing jurisdictions. Substantially all deductions which have been or may ultimately be disallowed will be carried forward as timing differences and claimed as deductions in future years, thereby having no significant effect on reported earnings.

The company's effective income tax rate as a percentage of pretax income varies from the U.S. statutory federal income tax rate as shown below:

	1984	1983	1982
Statutory federal income tax rate	46.0%	46.0%	46.0%
U.S. investment tax credit	(6.1)	(5.1)	(10.2)
Payroll based tax credit employee stock ownership plan	(3.1)	(3.5)	—
Difference between statutory rate and foreign effective rates	(2.7)	(2.2)	(2.2)
State taxes on income, less federal benefit	2.0	2.3	1.8
Other, net	2.0	1.6	0.3
Effective tax rate	38.1%	39.1%	35.7%

For the years 1984, 1983, and 1982, the U.S. investment tax credit amounted to $18,133,000, $15,548,000, and $25,439,000, respectively. In 1984 and 1983, these amounts were reduced by $5,417,000 and $4,659,000, respectively, as a result of related tax basis adjustments. The 1982 U.S. investment tax credit included an investment based tax credit for an employee stock ownership plan.

Note D. Notes and Debentures

Notes and debentures at year-end 1984 consisted of (in thousands):

	Due After One Year	Current Maturities
Mortgage notes payable, secured	$335,110	$28,517
7.40% sinking fund debentures, unsecured, due in installments through 1997	37,255	—
Commercial paper borrowings	100,000	—
Industrial development revenue bonds	57,110	570
Other notes payable, unsecured	117,057	19,187
	$646,532	$48,274

The mortgage notes payable are secured by properties which are included in the balance sheet at their net book value of $334,430,000. Mortgage notes have remaining terms ranging from two to 24 years and bear interest at 5 to 16 percent. The 7.40 percent debentures require annual sinking fund payments of $3,250,000. The company has repurchased debentures which cover $4,995,000 of future sinking fund requirements remaining at year-end 1984. Under the agreement covering the 7.40 percent debentures, $920,247,000 of the retained earnings as of year-end 1984 were free of restrictions for dividend payments and acquisitions of common stock. Restrictions include a limitation on the creation of additional funded debt.

As of year-end 1984, the company had completed industrial development revenue bond financings of $88,025,000 of which amount $57,875,000 had been released to the company. The bonds have terms ranging from 10 to 25 years and bear interest at 6 to 14 percent.

Aggregate annual maturities of notes and debentures for the four years beyond 1985 are (in thousands):

1986	$47,680
1987	$52,659
1988	$47,829
1989	$94,484

Note E. Lease Obligations

The company and its subsidiaries occupy primarily leased premises. Company premises and equipment were covered by 3,536 leases at year-end 1984, including 1,435 which are capitalized for financial reporting purposes.

Most leases have renewal options with terms and conditions similar to the original lease. Of all the leases 1,520 can be cancelled by the company by offer to purchase the properties at original cost less amortization.

The following schedule shows future minimum rental payments required under capital leases and under operating leases that have noncancelable lease terms in excess of one year as of year-end 1984 (in thousands):

	Capital Leases	Operating Leases
1985	$ 120,201	$ 144,665
1986	116,941	138,060
1987	114,284	130,903
1988	109,833	121,987
1989	106,612	114,220
Later years	1,107,827	1,309,251
Total minimum lease payments	1,675,698	$1,959,086
Less executory costs	18,139	
Net minimum lease payments	1,657,559	
Less amount representing interest	865,954	
Present value of net minimum lease payments	791,605	
Less current obligations	45,427	
Long-term obligations	$ 746,178	

Note E. Lease Obligations (Continued)

In addition to minimum lease payments, contingent rentals may be paid under certain store leases on the basis of the stores' sales in excess of stipulated amounts. Contingent rentals on capital leases amounted to $8,898,000 in 1984, $10,367,000 in 1983, and $10,373,000 in 1982.

The following schedule shows the composition of total rental expense for all operating leases (in thousands):

	1984	1983	1982
Property leases:			
Minimum rentals	$172,629	$156,247	$142,645
Contingent rentals	10,299	10,296	9,815
Less rentals from subleases	(15,472)	(11,589)	(10,814)
	167,456	154,954	141,646
Equipment leases	27,682	26,071	26,669
	$195,138	$181,025	$168,315

Note F. Lines of Credit and Short-Term Borrowings

At year-end 1984, the company had lines of credit with a number of major U.S. and foreign banks amounting to $482 million, of which $415 million is maintained to back U.S. commercial paper borrowings. Compensating balances in support of the lines of credit were not significant and there were no legal restrictions on withdrawals. The company pays annual commitment fees of approximately 1/8th percent on the unused portion of credit facilities to support commercial paper issuance.

Commercial paper borrowings at year-end 1984 amounted to $105 million of which $100 million were expected to be continually refinanced for a period beyond one year and were reclassified to long-term debt.

The company also has access to $495 million of money market lines from various domestic and foreign banks, subject to availability at the lenders' option and generally priced at interest rates below prime. No commitment fees or compensating balances are required for these lines. At year-end 1984, the company had $20 million of borrowings outstanding under these lines.

Note G. Profit-Sharing, Stock Option and Stock Appreciation Plans

The company has profit-sharing plans for eligible U.S. and Canadian employees. Contributions charged to income were $17,511,000 in 1984, $16,312,000 in 1983, and $14,131,000 in 1982.

The company also contributes to U.S. stock ownership plans which were made possible by additional tax credits authorized by tax legislation. Contributions charged to income were $9,174,000, $10,812,000, and $5,149,000 in 1984, 1983, and 1982, respectively.

The company has qualified "incentive" and nonqualified stock option plans which authorize issuance of 3,000,000 shares of the company's common stock. At year-end 1984, there were 1,137,390 unoptioned shares available for granting and 845,157 of the outstanding unexercised options were exercisable. Outstanding stock options expire on various dates during the next ten years. The weighted average purchase price per share under outstanding options was $22.46 at year-end 1984. Stock appreciation rights (SARs) are granted in tandem with certain stock options. Upon exercise of a stock appreciation right, the holder surrenders the related option and receives the excess of the then fair market value of the option shares over the option price in cash.

	Shares	SARs	Option Price
Outstanding, year-end 1981	1,189,700		15.81-23.94
Granted, 1982	298,600	546,400	14.31-15.81
Exercised, 1982	(67,652)		15.81
Cancelled, 1982	(32,120)		14.31-23.94
Outstanding, year-end 1982	1,388,528	546,400	14.31-15.81
Granted, 1983	838,050	239,400	24.56-27.56
Exercised, 1983	(250,838)	(235,090)	14.31-15.81
Cancelled, 1983	(262,770)	(1,710)	14.31-15.81
Outstanding, year-end 1983	1,712,970	549,000	14.31-27.56
Granted, 1984	18,250	16,500	22.31-27.19
Exercised, 1984	(143,782)	(134,700)	14.31-15.81
Cancelled, 1984	(187,100)	(17,100)	14.31-27.56
Outstanding, year-end 1984	1,400,338	413,700	14.31-27.56

The company recognized compensation expense of $486,000 in 1984, $3,468,000 in 1983, and $1,903,000 in 1982 relating to the granting of stock appreciation rights.

Note H. Employee Retirement Benefits

The company and its subsidiaries contribute to various pension plans under collective bargaining agreements and to retirement plans covering other eligible employees.

Contributions charged to income under union contracts were $125,607,000 in 1984, $121,980,000 in 1983, and $115,991,000 in 1982. Under U.S. legislation regarding multi-employer pension plans, a company is required to continue funding its proportional share of a plan's unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or plan termination. The company participates in approximately 80 multi-employer pension plans and the potential obligation as a participant in these plans may be significant. However, the information required to determine the total amount of this contingent obligation, as well as the total amount of accumulated benefits and net assets of such plans, is not readily available.

Other plans consist of contributory, trusteed retirement plans for eligible employees not covered by union contracts and a supplemental pension plan for senior executives. The aggregate charges to income for all such plans were $6,878,000 in 1984, $6,575,000 in 1983, and $17,390,000 in 1982. In 1983, the company adopted, for the U.S. retirement plan, the "pro-rata unit credit method" of determining pension benefit obligations for funding and accounting purposes. The new method was adopted over the "aggregate method" used in prior years because it determines an annual pension expense which more appropriately relates the costs of retirement benefits to the year in which such benefits are earned. The new method reduced the company's 1984 and 1983 annual contribution and expense for the U.S. retirement plan to zero. The annual contribution and expense in 1982 for the U.S. retirement plan under the aggregate method was $9,509,000.

The actuarial present values of accumulated plan benefits for the U.S. retirement plan as of December 31, 1983, 1982, and 1981 were $205,157,000, $179,000,000, and $169,382,000 as to vested benefits and $5,172,000, $4,677,000, and $4,397,000 as to non-vested benefits, respectively. The net assets available for benefits at those dates amounted to $478,485,000, $410,822,000, and $322,003,000, respectively. The assumed rate of return for determining the actuarial present value of accumulated plan benefits was 8 percent.

The company's foreign retirement plans and supplemental pension plan for senior executives are not required to report to U.S. governmental agencies pursuant to the Employee Retirement Income Security Act. Accordingly, the actuarial present value of accumulated plan benefits has not been determined for those plans. The net assets of foreign plans are sufficient to fund vested benefits. The company has purchased cost-recovery life insurance to fund its obligations under the supplemental pension plan for senior executives.

Note I. Commitments

The company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements.

These unrecorded commitments amounted to approximately $70 million at year-end 1984.

Note J. Contingent Liabilities—Litigation

There are pending against the company, as of March 1, 1985, various claims and lawsuits arising in the normal course of the company's business, some of which seek damages in very large amounts, as well as other relief which, if granted, would require very large expenditures. Included are suits claiming violation of certain Civil Rights and Antitrust laws, some of which purport to be class actions.

Although the amount of liability at year-end 1984 with respect to all of the above matters cannot be ascertained, management is of the opinion that any resulting liability will not materially affect the company's consolidated income or financial position.

Note K. Financial Information by Geographic Area (in thousands)

*United States**	1984	1983	1982
Sales	$15,042,760	$14,056,832	$13,252,699
Gross profit	3,691,222	3,400,517	3,128,112
Operating and administrative expenses	3,409,980	3,144,434	2,921,519
Operating profit	281,242	256,083	206,593
Income before provision for income taxes	165,974	154,967	121,020
Provision for income taxes	62,143	58,658	32,188
Net income	103,831	96,309	88,832
Net working capital including merchandise inventories at FIFO cost	478,950	384,897	390,689
Less LIFO reductions	318,281	289,006	289,450
Net working capital	160,669	95,891	101,239
Total assets	3,449,840	3,075,432	2,843,403
Net assets	925,055	845,623	625,586
Cumulative translation adjustments	3,156	1,339	(116)

Canada	1984	1983	1982
Sales	$2,641,738	$2,682,836	$2,569,717
Gross profit	573,077	590,412	549,112
Operating and administrative expenses	493,355	491,511	452,186
Operating profit	79,722	98,901	96,926
Income before provision for income taxes	78,620	97,707	93,861
Provision for income taxes	30,517	38,949	44,448
Net income	48,103	58,758	49,413
Net working capital	163,286	175,527	136,959
Total assets	653,632	654,494	623,596
Net assets	434,067	426,178	397,602
Cumulative translation adjustments	(86,993)	(62,167)	(54,301)

Other Foreign	1984	1983	1982
Sales	$1,957,703	$1,845,549	$1,810,405
Gross profit	373,355	344,445	327,545
Operating and administrative expenses	311,108	284,791	279,856
Operating profit	62,247	59,654	47,689
Income before provision for income taxes	54,228	48,259	33,379
Provision for income taxes	21,151	20,023	11,964
Net income	33,077	28,236	21,415
Net working capital	(21,127)	(40,561)	(20,074)
Total assets	433,757	444,437	423,634
Net assets	109,901	118,553	113,907
Cumulative translation adjustments	(72,157)	(53,259)	(41,625)

*Reflects the LIFO method of valuing certain inventories.

Note L. Supplementary Information on Inflation and Changing Prices (Unaudited)

The following supplementary information represents estimates of the effects of inflation on the company's financial statements using current cost accounting.

Current cost accounting attempts to measure the effect of changes in specific prices by adjusting historical costs to amounts which approximate the current costs to the company of producing or replacing inventories and property.

The computed net income for 1984 under current cost accounting includes adjustments to merchandise costs and depreciation and amortization expense. The effects of inflation on merchandise costs have already been recognized in the historical financial statements to the extent that the LIFO method of accounting is used for approximately 65 percent of merchandise inventories.

The provision for income taxes does not reflect the current cost adjustments to merchandise costs or depreciation and amortization expense.

The "gain from the change in purchasing power of net monetary liabilities" represents the gain in general purchasing power, as measured by general inflation rates, realized by the company as monetary liabilities are paid with currency of decreased purchasing power.

In 1984, the current costs of merchandise inventories and property increased by $51 million, whereas those assets increased by $187 million as a result of general inflation. Thus, the year's increase in inventories and property due to general inflation exceeded the increase in current costs by $136 million, indicating a rate of general inflation higher than the rate of increase in specific price indices for those items. At year-end 1984, the current cost of merchandise inventories was $1,882 million and the current cost of net property was $3,679 million.

Current cost accounting methods involve the use of assumptions, estimates and subjective judgements, and the results should not be viewed as precise measurements of the effects of inflation.

Supplementary Financial Data Adjusted for the Effects of Changing Prices (in millions)

	1984	
	As Reported in the Statement of Income	Adjusted for Changes in Specific Prices (Current Costs)
Sales	$19,642	$19,642
Cost of sales	15,005	15,090
Other expenses, net	4,338	4,385
Income before provision for income taxes	299	169
Provision for income taxes	114	114
Net income	$ 185	$ 55
Gain from the change in purchasing power of net monetary liabilities		97
Net income including gain in purchasing power		152
Depreciation and amortization expense*	$ 295	$ 353

* Allocated between cost of sales and other expenses in the determination of net income or loss

Amounts shown below for 1984 reflect the current cost assumption discussed above. Prior year amounts are adjusted to reflect the relationship between the average CPI-U for each of the years indicated as measured against the average CPI-U for 1984.

Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices (In Dollars of 1984 Average Purchasing Power, Using CPI-U)

	1984	1983	1982	1981	1980*
Sales	$19,642	$19,376	$18,975	$18,936	$19,037
Net income (loss)	55	22	22	(48)	(58)
Net income (loss) per share of common stock	.93	.38	.43	(.93)	(1.12)
Gain from the change in purchasing power of net monetary liabilities	97	92	89	208	270
Net income including gain in purchasing power	152	114	112	160	211
Increase in the current costs of merchandise inventories and property over (under) the increase due to general inflation	(136)	80	(156)	(271)	(21)
Net assets at year-end	2,849	2,910	2,667	2,813	2,996
Cash dividends per share of common stock	1.525	1.486	1.426	1.485	1.639
Market price per share of common stock at year-end	27.50	26.85	24.62	15.13	19.70
Average Consumer Price Index (CPI-U)	311.1	298.4	289.1	272.4	246.8

Note: Dollars are in millions except per share amounts

* 53 weeks

Note M. Quarterly Information (Unaudited)
(dollars in thousands, except per share amounts)

1984	First 12 Weeks	Second 12 Weeks	Third 12 Weeks	Last 16 Weeks*
Sales	$4,402,684	$4,525,660	$4,583,644	$6,130,213
Gross profit	1,014,275	1,076,082	1,082,311	1,464,986
Net income	22,013	47,544	38,736	76,718
Net income per share	.37	.81	.65	1.29
Cash dividends per share	.375	.375	.375	.40
Price range, New York Stock Exchange, High-Low	27¼-24⅛	25⅛-21⅜	29-21⅛	29¼-24⅞
1983				
Sales	$4,219,229	$4,287,238	$4,300,321	$5,778,429
Gross profit	955,030	991,805	999,390	1,389,149
Net income	23,883	37,121	47,122	75,177
Net income per share	.46	.68	.82	1.30
Cash dividends per share	.35	.35	.35	.375
Price range, New York Stock Exchange, High-Low	27⅞-24¼	30-24½	27⅛-23¾	28⅞-24¼
1982				
Sales	$3,983,793	$4,045,193	$4,093,348	$5,510,487
Gross profit	878,993	912,313	934,135	1,279,328
Net income	16,029	42,115	39,117	62,399
Net income per share	.31	.80	.75	1.20
Cash dividends per share	.325	.325	.325	.35
Price range, New York Stock Exchange, High-Low	14⅜-13⅛	15⅜-13¾	18⅜-14⅜	25⅛-18¼

Note: Dividends are for calendar quarters
*See Note A—Merchandise Inventories

Management's Responsibility for Financial Statements

The consolidated financial statements of Safeway Stores, Incorporated and its subsidiaries have been prepared in accordance with generally accepted accounting principles and necessarily include amounts that are based on management's best estimates and judgments. Management is responsible for the integrity and objectivity of the data in these statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

To fulfill its responsibilities, management has developed and maintained a strong system of internal accounting controls. There are inherent limitations in any control system in that the cost of maintaining a control should not exceed the benefits to be derived. However, management believes the controls in use are sufficient to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements. The controls are supported by careful selection and training of qualified personnel, by the appropriate division of responsibilities, by communication of written policies and procedures throughout the company, and by an extensive program of internal audits.

Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report follows the consolidated financial statements, are engaged to provide an independent opinion regarding the fair presentation in the financial statements of the company's financial condition and operating results. They obtain an understanding of the company's systems and procedures and perform tests of transactions and other procedures sufficient to provide them reasonable assurance that the financial statements are neither misleading nor contain material errors.

The Board of Directors, through its Audit Committee composed of outside directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Board, on the recommendation of the Audit Committee and in accordance with stockholder approval, selects and engages the independent accountants. The Audit Committee meets with the independent accountants to review the scope of the annual audit and any recommendations they have for improvements in the company's internal accounting controls. To assure independence, the independent accountants have free access to the Audit Committee and may confer with them without management representatives present.

Accountants' Report

Peat, Marwick, Mitchell & Co.

To the Board of Directors and Stockholders
Safeway Stores, Incorporated:

We have examined the consolidated balance sheets of Safeway Stores, Incorporated and subsidiaries as of December 29, 1984, December 31, 1983 and January 1, 1983 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 29, 1984, December 31, 1983 and January 1, 1983 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Oakland, California
March 1, 1985

Directors

C. Robert Kemp was elected to the Board of Directors on December 12, 1984. He has served as president and chief executive officer of Economic Resource Corporation, which developed Watts Industrial Park, and as executive director for the Interagency Council for Business Enterprise. In 1979, Mr. Kemp was named president and chief executive officer of Opportunity Funding Corporation, a private, non-profit development finance institution based in Washington, D.C. He is a member of American Security Bank's advisory board and the U.S./Nigeria Joint Agriculture Coordinating Committee. Mr. Kemp also serves on the boards of the National Urban Coalition and the National Black United Fund.

Samuel H. Armacost
President and
Chief Executive Officer
BankAmerica Corporation

Peter C. Bawden
Chairman of the Board
Peter Bawden Drilling Ltd.
(Oil and Gas Contract Drilling and Production)

John F. Bookout
President and
Chief Executive Officer
Shell Oil Company

Percy Chubb, III
Executive Vice President
The Chubb Corporation
(Insurance)

James R. Harvey
President and
Chief Executive Officer
Transamerica Corporation
(Insurance, Financial Services, Transportation, Manufacturing)

Edward N. Henney
Executive Vice President

Mary Gardiner Jones
President
Consumer Interest
Research Institute

C. Robert Kemp
President
Opportunity Funding Corporation

Marjorie S. Kinney
Chairman, President and
Chief Executive Officer
M. S. Kinney Corporation

Roger D. Lapham, Jr.
Chairman and Managing Director
RAMA Corporation Ltd.
(Insurance Investment Company)

Dale L. Lynch
Retired President and
Chief Operating Officer

Merrill L. Magowan
President
Magowan Investment Company
(Investment Adviser)

Peter A. Magowan
Chairman of the Board and
Chief Executive Officer

W. S. Mitchell
Chairman of the
Executive Committee

Dr. Steven Muller
President
The Johns Hopkins University

James A. Rowland
President and
Chief Operating Officer

Harry D. Sunderland
Executive Vice President

William H. Webster
President
Webster Feed Lots
Webster Land and Cattle Company

Brayton Wilbur, Jr.
Executive Vice President
Wilbur-Ellis Company
(Importing and Exporting)

Foreign Subsidiary Operations

Canada Safeway Limited

Robert H. Kinnie
Chairman of the Board
President and
Chief Executive Officer

Norman D. Fiegler
Vice President and
Retail Division Manager

Robert F. Hendy
Vice President and
Retail Division Manager

John Jope
Vice President and
Retail Division Manager

Bruce S. Nicoll
Vice President and
Retail Division Manager

Richard H. Parkyn
Vice President and
Retail Division Manager

Henry R. Rempel
Vice President and
Retail Division Manager

Safeway Food Stores Limited (United Kingdom)

T. E. Spratt
Chairman, Managing Director and
Retail Division Manager

Australian Safeway Limited (Australia)

J.W.R. Pratt
Chairman, Managing Director and
Retail Division Manager

"Safeway" Supermarkt GmbH (West Germany)

Manfred J. Filzek
Geschaeftsfuehrer and
Retail Division Manager

Jobs. Esmarch's EFTF. A/S (Denmark)

Niels Norregaard
General Manager

Executive Offices

Fourth and Jackson Streets,
Oakland, California 94660
(415) 891-3000

Transfer Agent and Registrar

First National Bank of Boston,
Boston, Massachusetts 02105

10-K Report

A facsimile of Safeway's 1984 10-K Report filed with the Securities and Exchange Commission may be obtained by writing the Controller at our executive offices.

Accountants

Peat, Marwick, Mitchell & Co.

Annual Meeting

The 1985 Annual Meeting of Stockholders will be held on May 14, 1985. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed April 5, 1985. This Annual Report does not constitute part of the proxy material.

Executive Officers

*Peter A. Magowan
Chairman of the Board and
Chief Executive Officer

*James A. Rowland
President and Chief
Operating Officer

*Edward N. Henney
Executive Vice President
Supply Operations

*E. Richard Jones
Executive Vice President
Information Services
and Planning

*Harry D. Sunderland
Executive Vice President
Chief Financial Officer

John Bell
Group Vice President

John S. Kimball
Group Vice President

William H. Maloney
Group Vice President

Donald J. Smith
Group Vice President

Robert H. Kinnie
Vice President
Chairman, President and
Chief Executive Officer
Canada Safeway Limited

*Members, Office of the Chairman

William M. Albers
Senior Vice President
Distribution

Robert E. Bradford
Senior Vice President
Public Affairs

E. J. Dale
Senior Vice President
Controller

Roderick W. Davis
Senior Vice President
Management Information Systems

Philip G. Horton
Senior Vice President
Real Estate and Engineering

John L. Morris
Senior Vice President
Corporate Economist

John H. Primeer
Senior Vice President
Marketing

John L. Repass
Senior Vice President
Human Resources

Bernat Rosner
Senior Vice President — Law
Secretary and General Counsel

Patrick S. Totman
Senior Vice President
Finance

Other Officers

Vice Presidents — Retail

Donald R. Cannon
John A. Canales
Gerald V. Cartwright
B. Raj Dogra
Carey A. Ford
Dean M. Gantt
Donald L. Gates
Richard P. Hillery
Gene J. Lawson
William D. Lowe
John R. Maxwell
Donald J. Phillips
Eugene V. Podoll
Wilbur L. Schinner
Robert R. Taylor
Ralph C. Ward
Richard F. Wilson

Vice Presidents — Service

Robert G. Backovich
Maurice Barron
Ronald Giglio
Gaylord H. Hanson
Timothy J. Hopkins
Gordon W. Jones
Milton K. Kegley
Wayne Leader
William W. Liedtke
George D. Marshall
Harvey K. Naito
Arthur L. Patch
Rayburn D. Pearce
John L. Prehn
Richard C. Stanton
Ronald F. Zachary

Vice Presidents — Supply

J. L. Alm
Floyd D. Crowe
Roland Frederick
John D. Lyding
Harold T. Nelson
Walter J. Schoendorf

Recently Elected Vice Presidents
Top Row, L. to R: Maurice Barron, director of Taxation, Rayburn D. Pearce, Meat Division manager, Arthur L. Patch, Grocery Merchandising Division manager, Robert G. Backovich, Produce Division manager.
Bottom Row, L. to R: Timothy J. Hopkins, Variety Merchandising Division manager, Ronald Giglio, Advertising and Promotion Division manager, Wayne Leader, Specialty Foods Division manager.

William M. Albers
senior vice president, distribution

B. Raj Dogra
El Paso Division manager

Wilbur L. Schinner
Little Rock Division manager

Richard P. Hillery
Washington, D.C. Division manager

Safeway Stores, Incorporated
Oakland, CA 94660

Bulk Rate
U.S. Postage
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